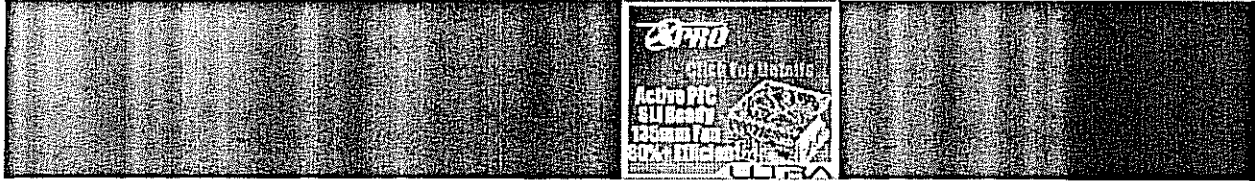


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March 26, 2007 6:31 PM

## Stacking Vista Licenses Too High

Microsoft's claim of **20 million Vista licenses sold** simply doesn't add up when trying to assess who realistically bought them in the time frame—"in the opening month"—stated in today's **press release**.



JOE WILCOX

Further, the press release claims that "Windows Vista made a splash in its debut."

What kind of Kool-Aid are they drinking up there in Redmond? Who spiked the Windows Vista-logo soda cans?

"Clearly there haven't been 20 million PCs sold worldwide since Jan. 30, and we're really only talking about February," said Stephen Baker, NPD's vice president of industry analysis.

License sales are good public relations fodder, but they're real world merits stop there. By every reasonable measure—PCs and retail boxed sales—Microsoft's numbers don't add up with the 20 million figure in one month.

The company used the 20 million in-one-month figure compared to 17 million Windows XP licenses in two-and-a-half months to bolster its Vista gangbusters sales claim.

Just like vulnerability alerts aren't a good **measure of Vista security**, number of licenses sold is no way to reckon the operating system's sales success.

The number's meaning collapses for three simple reasons:

- Microsoft's sales period for the license sales is significantly longer than 30 days—more like four months.
- License sales into the channel do not correspond to actual Vista PC sales out of the channel.
- The numbers don't match up with real world PC sales volumes.

By my accounting, Vista is actually off to a slower start than Windows XP, using real world comparisons.

**The numbers reflect more than first month sales.** Contrary to Microsoft's boasting, the *real* sales period for Vista sales is actually longer than Windows XP. Windows XP PCs purchased from Oct. 26, 2006 to March 15, 2007 were eligible for a free or substantially low-cost Vista upgrade. Microsoft includes these upgrades in the 20 million figure. People buying PCs during the holidays had some

expectation of a Vista upgrade.

Since Microsoft set up a Windows XP comparison, the door is open for another. Microsoft launched Windows XP on Oct. 25, 2001, or about five years to the day before Vista "Express Upgrade" program. Microsoft issued its first **XP sales blow out press release** on Nov. 11, 2001, touting 7 million licenses sold in the first two weeks of availability. That worked out to "200 percent higher than sales of Windows 98 in the first month of its availability," according to the press release.

Microsoft issued the **17 million sold PR** on Jan. 7, 2001, about two-and-half months after XP's official launch.

The October dates are fair comparisons. Windows XP was available for holiday sales from Oct. 25, 2001. From Oct. 26, 2006, holiday PC buyers were assured of free or super low-cost Vista upgrades.

By that reckoning—if number of licenses is to be the measure of success—Vista is off to a substantially slower start than Windows XP. Microsoft made its 20 million license claim almost two months after the 17 million XP announcement, in a comparable time frame. The XP announcement came about two-and-a-half months from launch date, while Vista's sales assessment is about a four-month period.

Microsoft deferred \$1.1 billion from its **fiscal second quarter** to third quarter on account of the licenses sold through the Express Upgrade program.

**A license sold isn't a license a sold.** Microsoft counts licenses sold to OEMs in the 20 million number, but the number of actual Vista PCs sold is likely much lower.

Roger Kay, president of Endpoint Technologies, described the licenses as "sales in" to the channel that don't necessarily reflect actual purchase and use by consumers. Stock sitting on store shelves, whether in boxes or on PCs, accounts for a fair number of those licenses.

The number could be significantly higher than normal. Except for some direct sales, "almost no one was building Windows XP PCs after Dec. 15," Baker said. PC manufacturers and retailers made a concerted effort to **clear out Windows XP stock** and replenish it with Windows Vista. The phenomenon created a vacuum for Windows Vista licenses to fill.

"In the short term, sales in—even if replenishment is better than stuffing—is a poor proxy for sales out," Kay said.

The phenomenon would tend to skew higher the number of Vista licenses going into the channel, but not necessarily correspond to an increase in PCs coming out of the channel.

Related is a debatable sales in/sales out interpretation of Microsoft's XP-Vista comparisons. A few years back, Microsoft changed its accounting to recognize license sales going into the channel rather than coming out. That would suggest the XP numbers represent sales moving out of the channel, while Vista license numbers would be going in.

A Microsoft PR spokesperson confirmed that the Vista numbers are for sales in, as Kay stated. But she asserted the XP numbers are also sales in. However, that's not at all how the press release reads: "17 million licenses of Windows XP were sold by computer manufacturers on new personal computers."

I asked Paul DeGroot, an analyst with Directions on Microsoft, and he had similar recollection about the sales-in change. If the XP number is in fact sales out, the Vista comparison collapses, because the 17 million number wouldn't represent unsold licenses. The faulty comparison, if indeed flawed, would be another indicator that Vista is off to a weak start.

**Analyst PC sales figures don't jive with Microsoft license numbers.** Microsoft's 20 million figure only makes sense when factoring in the longer time period—from Oct. 26 rather than Jan. 30—and the sales-in/sales-out situation.

Since the beginning of the year, Baker estimated only 3 million PCs have been sold in the United States.

"It's hard to see where you get to that [20 million] number in the first month of sales," he said. Similarly, Vista retail box sales are modest, at best.

Gartner and IDC forecasts show no significant uptake in PC sales because of Vista. Considering that 80

percent of Windows client revenue comes from OEM sales, the PC will be the major channel for Windows Vista.

In November, Kay predicted that OEMs would ship 21 million Vista licenses during first half 2007. Kay has no plans to revise his estimates, which indicates something about what he thinks Microsoft's 20 million number really means.

Kay estimates that, conservatively, worldwide, 17 million consumer or very small business PCs were eligible for free or discounted Vista upgrades during fourth quarter 2006.

The Express Upgrade program "would bump the numbers up quite a bit, because Microsoft would be realizing those licenses during the first month of Vista sales," DeGroot said.

Similarly, the channel fill of Vista licenses to replace XP stock and Microsoft's sales-in reckoning would account for much of the remaining number. But all the analysts said there is no indication that Vista license sales in is leading to a corresponding increase of PC sales going out of the channel.

"With all the channel issues and overlapping with tech guarantees, it'll take a longer period to establish just how successful Vista actually is," Kay said.

Even if Microsoft could somehow justify the 20 million number, DeGroot would dismiss its significance as a measure of Vista's success.

"It's kind of meaningless to say they sold a lot more," he asserted. "The run rate for PCs in 2001 was 120 million." The run rate is 220 million now, he said.

By the measure of run rate, "One could argue [Microsoft] sold more XP in 2006 than 2002," DeGroot said. "It would look like XP is on this incredible sales curve as well."

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